

PERFORMANCE EVALUATION OF SELECTED HYBRID MUTUAL FUNDS IN INDIA

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Abstract

In the Indian capital market various platforms for the investor to invest their money for getting more return. Among equity share, bond, treasury bill, corporate bond, mutual fund and so many, but in the Indian capital market, a mutual fund is one of the most favorable platforms for an investor to increase their wealth. That's why here we conducting a study on selected hybrid mutual funds in India, the sample of the study is 10 hybrid mutual funds that dived two categories aggressive and conservative hybrid mutual funds based on their nature. Each category has five hybrid mutual funds. The Financial ratio analysis is used for performance evaluation of fund, in that taking NAV(Net assets value) and return of the three years from 17th July 2017 to 2019. Finding Sharpe ratio, standard deviation, BETA, and Jensen's alpha on the bases of three-year data. In this study found market sentiment affect more in aggressive hybrid mutual fund compare to conservative.

Keyword: Standard deviation, NAV(Net assets value), Sharpe ratio, Jensen's alpha, BETA

INTRODUCTION

A mutual fund is a financial vehicle of investing money in the security market, a mutual fund is pulling the small saving in the large investment with the help of assets management company. There is a different kind of mutual fund in India which defines according to the nature of fund investment. Mutual fund type is equity, balanced, debt, fund of fund, index fund, money market fund, an exchange-traded fund. A mutual fund is also defined by the market capitalization of companies like large cap, medium cap, and small-cap. Investment of funds depends on fund Manager. A mutual fund is a diversified investment risk by the allocation of funds in different securities.

A mutual fund is handling or operated by a qualified fund manager. And he is allocating funds in the mutual fund according to the requirement of return on investment. There are many types of investment schemes in the mutual fund like open-ended, close-ended.

TYPE OF MUTUAL FUND

Equity Mutual Fund

Equity mutual fund is all investment Is deployed in only stock .the reason behind this investment is getting more and faster return, in this category risk and return Is very high comparatively other mutual funds, within this category, there is sub-category which depends on market capital of the company, large-cap, mid-cap, and small-cap. Large Cap Company is typically a blue-chip Company. So low-risk taker investor prefers larger-cap mutual fund.

Fixed income funds

In this fund, investors get a fixed rate of return like fixed deposited, bond, government security, investment-grade corporate fund, and high yield corporate bond. The purpose of investing money in this kind of fund is to get a regular basis, mostly through interest.

Balanced funds

This mutual fund is an investment combination of both equity and regular income security; the aim is obtaining a higher return against less risk. Many of the cases the fund is spilled in different investment instrument parts and portions of each fund are based on their requirement.

Index fund

This fund is aiming is tracking the performance of indices such as nifty 50, S&P Sensex. The value of the fund is depending on up and down goes of the index. These funds are available at a lower cost to compare other specific mutual funds reason is the manager is doesn't have to do more research.

LITERATURE REVIEWS

CMA Panigrahi et. al (2020) studied an analysis of ten equities linked saving scheme mutual funds. Using financial ratios and tools for analysis including the average return, coefficient of determination (R²), S.D, Beta, Sharpe ratio, Jensen alpha. They found a more attractive return in ELSS mutual funds and also takes a tax benefit of 1.5 lakh.

S TRIPATHI, DRGP JAPEE (2020) researched fifteen equity mutual funds of different categories based on the market capitalization of companies. Used different financial ratios for the evaluation of funds. They found the majority of equity mutual funds are performing well, but when a sharp fall in NIFTY 50 in 2019 is affecting the return of the mutual fund.

KB Sharma (2020) found that three funds have performed well and two funds had not performed well during the study period from the selected five Debt funds. The sharp fall in the NIFTY during the year 2019 has impacted the performance of all the selected funds. statistical parameters used for performance evaluation were alpha, beta, standard deviation.

S Ahmad, D Alsharif (2019) researched on Saudi Arabian fourteen Islamic and conventional mutual funds performance are compared based on financial ratios, tools, and people's opinions in the debate. In this research, they found Islamic mutual funds are the favorable reason it is low risk compared to conventional mutual funds and give more return. The data of the study is taken from 2013 to 2017 monthly data.

S Tripathi (2020) concluded that people are aware of a mutual fund but still, very few peoples are investing in mutual funds. Respondents are preferring equity, hybrid & debt respectively. 75% of respondents are preferring a Systematic Investment Plan(SIP). Respondents are also aware of share market functioning. Respondents know that the Asset Management Company(AMC) invest their money in Share Market. Primary data was used for research.

OBJECTIVE OF STUDY

- The main purpose of the study is to get information about the performance of mutual funds in India.
- To look at the arrival from the selected hybrid mutual funds in India
- The known the challenges and unpredicted in getting a return in mutual funds and know the security market

RESEARCH METHODOLOGY

Sources of Data

These data examination depends on secondary data collected from the assets management company and the historical NAV of securities official website.

Statistical tools

Jensen's Alpha: this ratio represents the return of a security, portfolio of securities over the benchmark return with the same amount of risk (e.g. the same Beta).it, therefore, becomes important for tools in the mutual fund analyst for selection of funds

The Jensen's Alpha formula: $\text{expected funds return} - \text{risk free return} + \text{beta of the portfolio} * (\text{expected market return} - \text{risk free return})$

Sharpe ratio: Sharpe ratio shows the comparison of fund return and its risk, this ratio is an average return on over the total risk. it uses standard deviation for measure a fund risk-adjusted return.

Formula of Sharpe ratio : $\frac{\text{portfolio return } \langle R(p) \rangle - \text{risk free return } \langle R(f) \rangle}{\text{standard deviation of portfolio } \langle s(p) \rangle}$

Beta; Beta is a portion of the unpredictability of funds which affected by a market factor, it is a measure of the volatility of funds to market as a whole. It shows the relationship between systematic risk and expected

Standard deviation:- The Standard Deviation is a measure of how-to spread-out numbers are. Its symbol is σ (the Greek letter sigma)

The formula is easy: it is the square root of the Variance.

DATA INTERPRETATION

Table 1.1 Data Analysis (annualized returns)

No.	Fund name	NAV for 2017	Return for 2017	NAV for 2018	Return for 2018	NAV for 2019	Return for 2019
1	Canara Robeco hybrid(RP)	137.18	4.88%	147.73	4.31%	161.28	3.49%
2	DSP eq.& bond fund (RP)	138	3.46%	145.28	3.59%	156.54	1.79%
3	IDBI Hybrid(DG)	11.59	1.02%	12.46	-2.00%	11.69	1.80%
4	JM Eq. hybrid	43.64	0.86%	45.48	-0.77%	41.18	-8.72%
5	L&T hybrid RP	25.15	0.21%	26.12	-1.21%	26.09	-3.64%

Table 1.2 Conservative funds

No.	Fund name	NAV for 2017	Return for 2017	NAV for 2018	Return for 2018	NAV for 2019	Return for 2019
1	HSBC (RG)	35	4.28%	34.76	6.84%	37.80	4.98%
2	SBI Debt (RG)	37.80	3.69%	37.89	5.45%	39.90	5.60%
3	ICICI Prudential (RG)	38.33	6.61%	40.22	7.45%	43.53	6.68%
4	LIC MF Hybrid (RG)	50.61	6.01%	51.77	7.93%	55.89	7.88%
5	Kotak Debt hybrid (RG)	29.21	5.34%	29.46	7.64%	31.83	7.28%

Table 2.1 Aggressive fund

No.	Fund name	STANDARD DEVIATION	BETA	SHARPE RATIO	JENSON'S ALPHA
1	Canara Robeco Eq. Hybrid Fund	13.14	1.01	0.19	0.16
2	DSP Eq.&Bond	14.9	8.47	0.08	-22.02
3	IDBI Hybrid	12.69	0.94	-0.27	-5.67
4	JM Eq. funds	15.66	1.02	-0.46	-9.61
5	L&T	14.34	0.69	-0.19	-2.75%

Table 2.2 Conservative fund

No.	Fund name	STANDARD DEVIATION	BETA	SHARPE RATIO	JENSON'S ALPHA
1	HSBC (RG)	5.41	1.13	0.03	-4.36
2	SBI Debt (RG)	5.29	1.08	-0.07	-4.69
3	ICICI Prudential (RG)	4.45	0.88	0.52	-1.25
4	LIC MF hybrid (RG)	4.21	0.85	0.38	-1.76
5	Kotak Debt Hybrid (RG)	5.71	1.2	0.21	-3.59

FINDINGS

Aggressive fund; 1.1

- In this category majority of holding in funds is equity which portion is more than 60%. And debt holding is comparatively very low. So the annual return of funds is a
- At the end of the year 2017 Canara Robeco eq. hybrid funds (RG) is 4.88% and NAV is 137.18, DSP equity and bond fund (RG) is given return 3.46% and NAV is 138, IDBI hybrid return is 1.02% and NAV is 11.59, JM equity hybrid gave return 0.86% and NAV 43.64, L&T hybrid is given return 0.21% and 25.15.
- At the end of the year, 2018 funds return and NAV is Canara Robeco eq. hybrid fund is 4.13 and NAV 147.73, DSP eq. & bond fund's return is 3.59% and NAV is 145.28, IDBI fund's return and NAV is -2.00% and 12,46 respectively, JM eq. the hybrid fund gave return -0.77 and NAV is 45.48, L&T hybrid is given return -1.21% and 26.12.
- At the end of the year 2019 Canara Robeco eq. hybrid funds (RG) is 3.49% and NAV is 161.28, DSP equity and bond fund (RG) is given return 1.79% and NAV is 156.54, IDBI hybrid return is 1.80% and NAV is 11.69, JM equity hybrid gave return -8.76% and NAV 41.18, L&T hybrid is given return -3.64% and 26.09.

Conservative Funds 1.2

- The return and NAV of funds at the end of each year is explaining here.
- At the year of 2017 HSBC (RG) return is 4.28% and NAV is 35, SBI Debt is returned 3.69% and NAV 37.80, ICICI Prudential (RG) return is 6.61% and NAV 38.33, LIC MF hybrid (RG) return is 6.01% and 50.61 and Kotak Debt hybrid (RG) return is 5.34% and NAV 29.21.
- At the year of 2018 HSBC (RG) return is 6.84% and NAV is 34.76, SBI Debt is returning 5.45% and NAV 37.89, ICICI Prudential (RG) return is 7.45% and NAV 40.22, LIC MF hybrid (RG) return is 7.93% and 51.77 and Kotak Debt hybrid (RG) return is 7.64% and NAV 29.46.
- At the year of 2018 HSBC (RG) return is 4.98% and NAV is 37.80, SBI Debt is returned 5.60% and NAV 39.90, ICICI Prudential (RG) return is 6.68% and NAV 43.52, LIC MF hybrid (RG) return is 7.88% and 55.89 and Kotak Debt hybrid (RG) return is 7.28% and NAV 31.83.

Aggressive funds 2.1

- In Canara Robeco eq. hybrid fund (RG) it has an SD of the fund is 13.14 and BETA is 1.01 indicates the low volatility of fund and Sharpe ratio is 0.19 and Jensen's alpha is 0.16 which mean the fund has better risk adjustment return to nifty 50 (benchmark return) and performing well and the investor gets a better return.
- In DSP Eq. and bond hybrid fund has standard deviation is 14.9 and the BETA value is 8.47 which means volatility and risk are high and the Sharpe ratio is 0.08 and Jensen's alpha -22.02 its show the low return adjustment and not performing well.
- In IDBI hybrid fund has a standard deviation is 12.69 and the BETA value is 0.94 it means the fund volatility is very low and predictable, Sharpe ratio is -0.27 and Jensen's alpha is -5.67 which mean underperformance of fund comparatively benchmark.
- In JM Equity hybrid fund has a standard deviation is 15.66 and the BETA value is 1.02 which means high volatility compared to other and Sharpe ratio is -0.46 and Jensen's alpha is -9.61 which mean low adjusted return and low risk.
- In L&T hybrid fund has a standard deviation is 14.34 and the BETA value is 0.69 which means the volatility of a fund is average and compare to other is also average and Sharpe ratio is -0.19 and Jensen's alpha is -2.75 which show medium adjusted return.

Conservative funds 2.2

- In HSBC(RG) fund has a standard deviation is 5.41 and the BETA value is 1.13 which means the volatility of the fund is very low, Sharpe ratio and Jensen's alpha is 0.03 and -4.36 respectively it indicates low return adjustment of the fund and not performing well.
- In SBI debt fund has a standard deviation is 5.29 and the BETA value is 1.08 which means lower individual volatility but in the category is high, and the Sharpe ratio is -0.07 and Jensen's alpha is -4.69 it indicates the lower risk again lower return.
- In ICICI Prudential (RG) has a Standard deviation is 4.45 and the BETA value is 0.88 which means high volatility, and the Sharpe ratio is 0.52 and Jensen's alpha is -1.25 it shows better return adjustment.
- In LIC MF hybrid fund has a standard deviation is 4.21 and BETA value is 1.2 which mean fund in high fluctuation. Sharpe ratio is 0.38 and Jensen's alpha is -1.76 that mean good return adjustment of return on investor investment
- In Kotak, debt hybrid fund has a standard deviation is 5.71, and the BETA value is 1.2 which means high volatility of fund in during three years, Sharpe ratio is 0.21 and Jensen's alpha is -3.59 which mean unfavorable return adjustment of the fund.

CONCLUSION

The study is conducted based on ten selected hybrid mutual funds, the hybrid fund is typically divided into holding of equity and debt. An aggressive mutual fund in the majority of investment of equity so they are riskier, a Meanwhile conservative mutual fund is low risky and volatility is low because the majority of holding in these funds are Debt or fixed income fund and equity portion is very small. But while looking on return conservative mutual fund is give more return against low risk, when aggressive mutual funds in the majority of funds give negative return against high risk.

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